

10. Privatization. Progress in privatization has been the centerpiece of the Government's achievements in structural reform of the economy. The Russian privatization program has been impressive; by end-1994, 84 percent of the industrial workforce was employed in enterprises with majority private ownership. The voucher program for divesting ownership was completed in October, with over two-thirds of large and medium enterprises, and over 80 percent of small enterprises privatized, or a majority interest auctioned for vouchers. The new phase, based on cash auctions and investment tenders, began in July 1994 under new regulations clarifying land transfer and limiting concessional shares for employees. Other legislation has strengthened the role of the bankruptcy agency in handling insolvent enterprises. However, legislation on collateral, property rights, and accounting have not made rapid progress. Many state and collective farms have been technically privatized, though often they remain under collective management and most have not been significantly restructured. Land privatization should accelerate following the Prime Minister's announced commitment in March 1994 to expand a pilot model of farm privatization carried out in Nizhny Novgorod. By the end of 1993 some 25 percent of eligible housing units had been transferred to occupants under a nationwide framework of housing privatization on a giveaway basis. In 1994 housing privatization has continued but the pace slowed as fewer occupants perceived private ownership as advantageous.

11. Further progress on privatization remains encouraging, although difficult tasks lie ahead. The core of remaining state enterprises has shrunk to (i) extraordinarily large and profitable enterprises, (ii) large and particularly poor performers, and (iii) public utilities. The first group of enterprises, particularly in the energy sector, raise the issue of how best to divide production into competitive units to avoid the consequences of adverse monopolistic behavior. Loss making large enterprises require selective government support for restructuring to downsize, shift production, and in some cases liquidate assets. Public utilities, on the other hand, require an appropriate regulatory environment, and policy reform to encourage divestiture of competitive businesses. Government interventions should be limited to extending privatization in these remaining areas, financial discipline through reducing subsidies and making them transparent in the budget, encouraging restructuring by support for displaced workers and divestiture of social assets, and by strengthening the regulatory framework. Regional and local authorities will have a major influence on the future pace of privatization and enterprise restructuring.